

Message Text

PAGE 01 STATE 278142
ORIGIN SS-15

INFO OCT-01 ISO-00 SSO-00 /016 R

66011

DRAFTED BY:EA:JBADER:MFG

APPROVED BY:EA:JBADER

S/S:DSUMMERS

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R 190621Z NOV 77

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C O N F I D E N T I A L STATE 278142

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FOLLOWING REPEAT MANILA 18259 SENT ACTION SECSTATE NOV 18.

QUOTE C O N F I D E N T I A L MANILA 18259

EXDIS

E.O. 11652: GDS

TAGS: ENRG, RP, US

SUBJECT: POSSIBLE PALACE COMMERCIAL INTERESTS IN NUCLEAR POWER
PROJECT

1. SUMMARY. TWO MAJOR U.S. DAILIES ARE INVESTIGATING STORIES ABOUT THE PHILIPPINE NUCLEAR POWER PROJECT THAT COULD POSSIBLY BE TURNED INTO EXPOSES OF PALACE COMMERCIAL INTERESTS IN THIS WESTINGHOUSE-SUPPLIED, U.S. EXPORT/IMPORT BANK-FINANCED PROJECT. WHILE WE HAVE NO EVIDENCE THAT DIRECT PAYOFFS WERE MADE, WE HAVE BEEN TOLD A SUBSTANTIAL AGENT'S FEE DID ACCRUE TO THE LOCAL WESTINGHOUSE AGENT, A PALACE CONTACT. THERE REMAINS ENOUGH RANCOR LOCALLY ABOUT HOW THE PROJECT WAS NEGOTIATED, CONFIDENTIAL

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THE PRICING OF THE PROJECT, AND THE INVOLVEMENT OF LOCAL FIRMS WITH STRONG PALACE CONNECTIONS, TO PROVIDE GRIST FOR INVESTIGATIVE REPORTERS TO DEVELOP A STORY THAT COULD BE EMBARRASSING TO THE MARCOS REGIME, TO WESTINGHOUSE, AND POSSIBLY TO THE EXIM BANK. END SUMMARY.

2. THE EMBASSY HAS LEARNED THAT BERNIE WIDEMAN, LOCAL STRINGER FOR THE WASHINGTON POST, AND FOX BUTTERFIELD, BUREAU CHIEF IN HONG KONG FOR THE NEW YORK TIMES, ARE BOTH DEVELOPING BACKGROUND INFORMATION FOR SEPARATE

STOREIS ON THE WESTINGHOUSE NUCLEAR POWER PROJECT. BOTH REPORTERS HAVE INDICATED THEIR INTENTION TO HIGHLIGHT THE CONNECTIONS BETWEEN THE PROJECT AND THE PALACE. BUTTERFIELD HAS SAID SPECIFICALLY HE IS RESEARCHING AN ARTICLE ON "DOING BUSINESS IN THE PHILIPPINES, PHILIPPINE STYLE", AND A KEY PART OF HIS STUDY WILL BE THE WESTINGHOUSE CONTRACT; HOW IT WAS NEGOTIATED, ITS PRICING, AND ITS FINANCING. BARRY KRAMER, ASIA CORRESPONDENT FOR THE WALL STREET JOURNAL, IS ALSO IN TOWN DOING RESEARCH ON THE BUSINESS AFFAIRS OF THE MARCOS FAMILY BUT HAS NOT MENTIONED OR ZEROED IN ON THE WESTINGHOUSE NUCLEAR PROJECT.

3. AREAS OF CONTROVERSY. THERE ARE VARIOUS AREAS OF CONTROVERSARY ABOUT THE PROJECT, GOING BACK TO ITS INCEPTION, THAT CONTINUE TO RANKEL SOME LOCAL OBSERVERS AND COULD BE THEMES OF A CRITICAL ARTICLE ABOUT THE PROJECT.

4. SELECTION OF SUPPLIERS. NO ASPECTS OF THIS BILLION DOLLAR PROJECT HAS GONE TO COMPETITIVE BIDDING. VARIOUS SUPPLIERS SUBMITTED PROPOSALS TO THE GOP IN LATE 1974 AND BY EARLY 1975 WESTINGHOUSE WAS SINGLED OUT FOR CONTINUED NEGOTIATIONS. (COMMENT: WESTINGHOUSE HAS ENJOYED A LONG ASSOCIATION WITH THE GOP, BEGINNING IN THE IMMEDIATE POSTWAR YEARS WHEN IT ASSISTED CONFIDENTIAL

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THE GOP IN PREPARING FOR THE AGUS RIVER (MINDANAO) HYDROELECTRIC PROJECTS. THE WESTINGHOUSE ENGINEER THEN, LEN SABOL, IS NOW THE WESTINGHOUSE REPRESENTATIVE IN MANILA. WESTINGHOUSE WAS THEN A LOGICAL CHOICE GIVEN ITS ROLE AS THE WORLD'S LEADING SUPPLIER OF PRESSURIZED WATER REACTORS AND ITS EXPERIENCE IN DEVELOPING COUNTRIES. ALSO, GIVEN THE VERY LIMITED PHILIPPINE NUCLEAR EXPERTISE, AND VERY THIN MANAGEMENT CAPABILITY OF THE NATIONAL POWER CORPORATION (NPC), A TURN-KEY APPROACH ALSO MAKES SENSE. END COMMENT).

5. CONTRACT PRICING. THE PRICE OF THE PHILIPPINE REACTOR AT THE TIME OF CONTRACT SIGNING (FEBRUARY 1976), WAS FELT TO BE FAR MORE THAN ANY SIMILAR REACTOR CONTRACTED FOR AT THAT TIME. AN EXAMPLE CITED AROUND TOWN WAS THAT WESTINGHOUSE SOLD THE SISTER PLANT TO YUGOSLAVIA FOR ABOUT \$600/KWE WHILE THE PHILIPPINE PLANT WAS COSTING OVER \$1000/KWE. WESTINGHOUSE DID SEND A SERIES OF LETTERS IN MID-1975 TO NPC EXPLAINING ITS PRICE OFFERS, DRAWING COMPARISON BETWEEN PLANTS IN EGYPT AND KOREA, AND ASSERTING THE COMPETITIVENESS OF ITS NEGOTIATED PRICE. THE WESTINGHOUSE PRICE OFFER FOR IMPORTED GOODS AND SERVICES DID INCREASE BETWEEN THE TIME OF THE FIRST OFFER IN JANUARY 1975 TO FINAL CONTRACT SIGNING IN FEBRUARY 1976 FROM \$320 MILLION PER UNIT FOR A TWO-UNIT INSTALLATION TO \$616 MILLION FOR ONE 620 MW UNIT. (COMMENT: THE EMBASSY HAS NEVER FULLY UNDERSTOOD THE PRICING MECHANISM AND INDEED FELT AT ONE TIME THAT

WESTINGHOUSE WAS DELIBERATELY OBFUSCATING THE ISSUE (MANILA 4373 DATED APRIL 8, 1975). PRICE PER KILOWATT COMPARISONS ARE ALSO CONFUSED BY THE REDUCTION OF THE SCOPE OF THE PROJECT FROM TWO TO ONE UNIT, WITH THE COST FOR INFRASTRUCTURE AND FOUNDATIONS FOR BOTH INCLUDED IN THE FIRST UNIT PRICE. WE MUST PRESUME THE EXIM BANK INVESTIGATED THIS ASPECT OF THE PROJECT FULLY AND WAS SATISFIED THE PRICE WAS COMPETITIVE. EMBOFF HAS BEEN TOLD JUST RECENTLY BY UNDERSECRETARY GABRIEL ITCHON
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OF DEPARTMENT OF INDUSTRY (PRESIDENT MARCOS'S PERSONALLY ASSIGNED EXPEDITOR FOR THE NUCLEAR PROJECT) AND COMMISSIONER LIBRADO IBE OF THE PHILIPPINE ATOMIC ENERGY COMMISSION, THAT THEY NOW CONSIDER THE WESTINGHOUSE PRICE VALID. THEY BOTH SAID, ON SEPARATE OCCASIONS, THAT THE WESTINGHOUSE CONTRACT HAS STOOD THE TEST OF TIME AND PROVEN EQUITABLE FOR THE PHILIPPINES, GIVEN PRICE TRENDS SINCE CONTRACT SIGNING. NEITHER MAN WAS A PROMOTER OR SUPPORTER OF THE NUCLEAR PROJECT DURING ITS INCEPTION. END COMMEND).

6. THE PALACE CONNECTION. THE HERDIS MANAGEMENT GROUP HAS BEEN IDENTIFIED WITH AND INVOLVED IN THE NUCLEAR POWER PROJECT FROM THE BEGINNING. THE EMBASSY FIRST HIGHLIGHTED THIS CONNECTION IN MANILA 13471 OF SEPTEMBER 1976. THE HERDIS GROUP IS HEADED BY HERMINIO DISINI, WHO IS MARRIED TO IMELDA MARCOS' FIRST COUSIN AND PERSONAL PHYSICIAN. DISINI IS REGARDED AS ONE OF THE PRINCIPAL MALACANANG INSIDERS ON PERSONAL FINANCIAL AFFAIRS. IT IS GENERALLY ACCEPTED IN BUSINESS CIRCLES HERE THAT ANYTHING THAT ENRICHES THE HERDIS GROUP ENRICHES THE MARCOS. WE HAVE REASON TO CONCLUDE THAT THERE ARE SENIOR OFFICIALS AT THE DEPARTMENT OF INDUSTRY (PATERNO AND ITCHON), PAEC (IBE), AND NPC (DEL ROSARIO AND PA") WHO CONTINUE TO RESENT THE "HERDIS CONNECTION" FORCED UPON THEM IN THIS PROJECT.

7. THE POINTS OF INFLUENCE THAT AN INVESTIGATIVE REPORTER COULD INFER BETWEEN THE WESTINGHOUSE PROJECT AND THE PALACE ARE, AS FAR AS WE KNOW THEM:

A. ASIA INDUSTRIES HAS BEEN THE WESTINGHOUSE POWER SYSTEMS SALES REPRESENTATIVES IN THE PHILIPPINES FOR NEARLY 20 YEARS. IT WAS PURCHASED FROM USIPIL BY THE HERDIS GROUP A FEW MONTHS BEFORE THE FINAL CONTRACT SIGNING.
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J.J. VERGARA, PRESIDENT OF ASIA INDUSTRIES, TOLD EMBOFF AT THE TIME OF CONTRACT SIGNING THAT AN AGENT'S FEE OF "A FEW MILLION" (PESOS OR DOLLARS NOT SPECIFIED), WOULD ACCRUE TO ASIA INDUSTRIES.

B. POWER CONTRACTORS INC. IS A CONSORTIUM OF LOCAL CONSTRUCTION FIRMS FORMED TO SUB-CONTRACT THE CIVIL WORKS PORTION OF THE PROJECT. IT IS COMPOSED OF HERDIS SUBSIDIARIES AND OTHER FIRMS WITH PALACE CONNECTIONS. IT SIGNED A \$100 MILLION CONTRACT WITH WESTINGHOUSE THE SAME DAY THE NPC/WESTINGHOUSE CONTRACT WAS SIGNED.

C. SUMMA INSURANCE CORPORATION (A HERDIS SUBSIDIARY) AND THE GOVERNMENT SERVICE INSURANCE SYSTEM ARE THE LEAD INSURERS FOR THE \$668 MILLION COVERAGE FOR THE CONSTRUCTION AND START-UP PHASES OF THE PROJECT.

D. PHILIPPINE ELECTRICAL CONSTRUCTION COMPANY (PECCO), IS THE ELECTRICAL SUB-CONTRACTOR. IT IS A MERALCO SECURITIES CORPORATION SUBSIDIARY. MSC IS CONTROLLED BY THE BROTHERS OF MRS. IMELDA ROMUALDEZ MARCOS.

8. WESTINGHOUSE OFFICIALS INTIMATELY ASSOCIATED WITH THE PROJECT HAVE INDICATED TO US THAT ALL OF THESE RELATIONSHIPS ARE JUSTIFIABLE AND CORRECT IN A COMMERCIAL SENSE, AND COMPLETELY DEFENSIBLE. THE PUBLIC HERDIS ROLE IN THE NUCLEAR PROJECT IS NOTHING NEW OF COURSE. IT WAS NOTED IN A BUSINESS DAY ARTICLE, "HERDIS - THE EMERGENT GIANT" IN JUNE 1976. THE BEHIND-THE-SCENES INFLUENCE OF THE HERDIS GROUP WAS CONFIRMED BY JOH DOYLE OF WESTINGHOUSE POWER SYSTEMS. DOYLE, WHO SPENT TWO YEARS DEVELOPING THE CONTRACT, TOLD EMBOFF THAT IT WAS "ABSOLUTELY ESSENTIAL" TO HAVE THE DISINI AND VERGARA CONNECTION, AND CLAIMED THAT IT WOULD HAVE BEEN IMPOSSIBLE FOR WESTINGHOUSE TO OBTAIN THE CONTRACT OTHERWISE. "ACCESS," HE SAID, "MADE THE DIFFERENCE."

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9. THE EXIM EXPOSURE. WESTINGHOUSE SUBMITTED A SIGNED STATEMENT TO THE EXIM BANK THAT THERE HAD BEEN NO COMMISSION PAID IN SECURING THIS CONTRACT. THIS IS PROBABLY A TECHNICALLY CORRECT STATEMENT, BUT WE HAVE BEEN TOLD AN AGENT'S FEE DID GO TO ITS EXISTING AGENT, ASIA INDUSTRIES. IT ALSO APPEARS THAT SOME OTHER WELL CONNECTED SUB-CONTRACTORS MAY HAVE AN OPPORTUNITY TO PROFIT FROM THIS EXIM-FINANCED PROJECT, AND THERE ARE ENOUGH OPPORTUNITIES FOR A REPORTER TO CONDEMN THROUGH "GUILD BY ASSOCIATION" FOR EXIM TO BE CONCERNED. RUMORS PERSIST THAT DIRECT KICKBACKS TO SENIOR GOVERNMENT OFFICIALS AND HERDIS PEOPLE WERE INVOLVED IN SECURING THIS CONTRACT. THE MOST RECENT WAS HEARD FROM BUTTERFIELD, WHO CITES "EVERY HIGH PHILIPPINE OFFICIALS, AS HIGH AS YOU CAN GO" AS SAYING WESTINGHOUSE KICKBACKS RANGED FROM 60 MILLION TO 200 MILLION U.S. DOLLARS. SENATOR AQUINO TOLD STAFF-DEL SALZBERG THAT WESTINGHOUSE PAID DISINI 25 MILLION DOLLARS TO PROMOTE THE DEAL. (SALMON MEMCON DATED 4/19/77).

EVEN IF KICKBACKS WERE PAID, OF WHICH WE HAVE NO EVIDENCE, WE FIND THESE FIGURES VERY LARGE, AND, IN FACT, INCREDIBLE. PERHAPS BUTTERFIELD HAS HIS DECIMALS IN THE WRONG PLACE. ONE PERCENT AGENT'S FEE TO ASIA INDUSTRIES ON TOTAL U.S. COSTS WOULD BE 6.16 MILLION DOLLARS.

10. BUTTERFIELD TOLD EMBOFF HE INTENDS TO INVESTIGATE THE FINANCING OF THE NUCLEAR POWER PROJECT, INCLUDING EXIM FINANCING TO DISCOVER WHERE OPPORTUNITIES AND FUNDS FOR PAYOFFS COULD HAVE BEEN GENERATED. WE CANNOT SURMISE HOW THE EXIM PORTION OF THE FINANCING COULD BE DIVERTED TO PAYOFFS. AS WE UNDERSTAND IT, DRAWDOWNS ARE TAKEN ONLY TO COVER DIRECT COSTS OF EXPENDITURES ON US-SOURCED GOODS AND SERVICES. WE HAVE NO IDEA WHAT BUTTERFIELD
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MAY DISCOVER IN INVESTIGATING THE MECHANISM FOR THE FINANCING OF THE UNGUARANTEED COMMERCIAL LOANS OF 190.5 MILLION DOLLARS CAPITALIZED INTEREST AND 62 MILLION DOLLARS CASH DOWN PAYMENT, PLUS 208.4 MILLION DOLLARS GOP EQUITY CONTRIBUTION TO FINANCE LOCAL COSTS -- AND WE DO NOT INTEND TO TRY AND FIND OUT. HOWEVER, WE REMAIN CONVINCED THAT THE "PALACE INTERESTS" IN THIS PROJECT ARE ADEQUATELY TAKEN CARE OF VIA THE ASIA INDUSTRIES CONNECTION AND INDIRECT MECHANISMS OF THE SUB-CONTRACTS DESCRIBED ABOVE AND IT IS UNLIKELY DIRECT PAYMENTS WILL BE DISCOVERED. TWO OF OUR "VERY HIGH PHILIPPINE OFFICIALS" SOURCES CONCUR.

11. THE DEPARTMENT MAY WISH TO DISCUSS THE ABOVE WITH EXIM OFFICIALS AND ALERT THEM TO THE TREND THE POSSIBLE WASHINGTON POST AND NEW YORK TIMES ARTICLES ON THIS PROJECT MIGHT TAKE.

12. EMBASSY IS POUCHING TO EA/PHL COPIES OF VARIOUS IN-HOUSE MEMOS WRITTEN OVER THE PAST ONE AND ONE-HALF YEARS ON THIS SUBJECT FROM WHICH THIS REPORT IS DRAWN.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NUCLEAR ENERGY, DEVELOPMENT PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 19-Nov-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE278142
Document Source: ADS
Document Unique ID: 00
Drafter:
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D770430-0848
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197711116/baaaeujy.tel
Line Count: 261
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: ad3f1a10-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY EXDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 427463
Secure: OPEN
Status: NATIVE
Subject: POSSIBLE PALACE COMMERCIAL INTERESTS IN NUCLEAR POWER
TAGS: ENRG, RP, US
To: TOKYO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ad3f1a10-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009